Community Development Commission

August 26, 2008

To: Each Supervisor

From: William K. Huang, Acting Executive Director

William K. Huang

Subject: Status of Efforts on American Housing Rescue and Foreclosure Prevention Act (H.R. 3221)

The American Housing Rescue and Foreclosure Prevention Act of 2008 (H.R. 3221), which was enacted on July 30, 2008, includes $3.92 billion for one-time grants to state and local governments for the redevelopment of abandoned and foreclosed homes in response to the foreclosure crisis. The funding has been identified as Community Development Block Grant (CDBG)–like and, therefore, it is anticipated that the program will be administered by the Community Development Commission (CDC).

This memo will outline the provisions impacting the County/CDC and provide some limited information relative to the planning that has been conducted by the CDC as we gear up to implement the required program regulations.

Major Provisions Affecting the County and CDC

CDBG Program - The major foreclosure provision of this bill provides emergency assistance for the redevelopment of abandoned and foreclosed homes. As previously indicated, the legislative provision makes available $3.92 billion, to be administered by HUD, and allocated to states and local governments. Some of the activities identified in the statute include establishment of financing mechanisms to provide mortgage down payment assistance, purchase, rehabilitation and sale of homes and demolition and clearance of blighted properties.

Administrative Funding

The legislation requires that HUD provide regulations for this program within 60 days from approval of the legislation, with disbursement of funds to follow 30 days thereafter. While the legislation does not explicitly provide for an administrative allocation, it does identify that the funds be treated similar to the existing Community Development Block Grant (CDBG) program which includes an administrative allowance of 20%. We are advocating that the administrative allowance be the same as that permitted in the CDBG program. In the development of the regulations, HUD will determine the extent to which administrative funds will be allowed. Should HUD determine that no administrative funds will be allocated, it will be necessary to discuss, with the CEO, the means by which to pay for and administer this program.

<u>Allocation Method and Formula Factors</u>

At this point, we are uncertain as to which allocation formula will be used or the method by which funds will be disbursed to states and local jurisdictions. The legislation provides 0.5% of the total funding to each state off the top of the grant before any allocation to local governments is determined. The legislation has identified three factors upon which allocation of the funding will be determined. These factors are: homes in foreclosure, subprime mortgages, and mortgage defaults and delinquencies. In addition, the statute has identified that the local government give priority emphasis and consideration to those areas with the greatest need based on the formula factors above. Similarly, our identification of need and allocation of funding, once received by the county, will parallel HUD's formula factors to the greatest extent feasible. In order to assist us in identifying high need areas in the county, we have been working with several data providers and have determined that the most comprehensive source to meet our local needs is Dataquick. We have purchased the data, by census tract, and will conduct further analysis upon receipt.

<u>18-Month Use Requirement</u>

This one-time funding has an 18-month use requirement. We are advocating that HUD define the use of funds to mean commitment rather than expenditure since the latter would place an undue burden on our ability to implement an effective program.

<u>Income Targeting Requirement</u>

Unlike the usual CDBG program, the statute allows for assistance to be provided to persons up to 120% of the median income and mandates that 25% of the funding be targeted to benefit persons at or below 50% of the median income. The 120% of median would equate to an income of $71,760 for a family of four (4) while 50% of the median would equal a family income of $29,900.

<u>Planning and Advocacy</u>

In anticipation of the funding, the internal divisions of the CDC have been meeting to further develop the administrative and operational approach in addition to identifying how best to target the funding based upon need. This program will be administered by the CDBG Division and implemented by the Housing Development and Preservation (HD&P) Division. Due to the short timeframe for use of the funds, and the one time nature of the funding, we are looking at how we can utilize existing programs such as the Homeownership and Housing Rehabilitation Programs, within the CDC, to form the basis for the Foreclosure Program structure. In addition, we are also considering the implementation of a purchase and rehabilitation program in partnership with local lenders, whereby homeowners work directly with approved lenders in the purchase and rehabilitation of foreclosed homes. In this partnership, the CDC could develop a number of program components to include: subsidizing interest rates for purchase, offsetting a portion of the rehabilitation cost, and assisting with down payments etc. This would not only assist with the purchase and rehabilitation of foreclosed homes, but would allow the CDC to better leverage the funds that it receives.

We are also reviewing how best to incorporate the needs of the 47 cities participating in the CDBG program. We are, as yet, uncertain whether the regulations, and the funding allocation method, will require that we consider the needs of communities outside the Urban County (as defined by the CDBG program). We do not anticipate that the program will include direct allocation to these cities or to individual districts, but will take into account foreclosure activity in these areas in targeting need and allocating funding on a countywide basis. We are assessing preliminary data at the zip code level but will be able to make further assessments upon receipt of data from Dataquick, which will provide census tract level information. While this data will be useful in our planning efforts, we do not know which data source will ultimately be used by HUD and, therefore, it may not yield the same results as those provided by Dataquick.

With respect to the mandated targeting to 50% of median income households, we do not anticipate that a homeownership program would be viable given the limitation of this income group to sustain the costs of homeownership. Therefore, we are reviewing the feasibility of implementing a rental component of the program which could assist this income group in obtaining affordable housing. The regulations that HUD develops may allow us additional flexibility in serving this target group. If acquiring foreclosed properties to provide rental housing becomes a significant program component, we would foresee using nonprofit housing providers to ultimately acquire and manage this housing. This would ensure that no long term liability, for management and maintenance of the housing, would remain with the CDC. We are continuing to collect data to identify where foreclosure activity is taking place so that we can target the resources once they are received. We will focus our planning efforts when we have a better idea of the regulatory stipulations that HUD ultimately promulgates.

Most recently, we have been working with the Mark Tajima of the CEO's legislative office and Reggie Todd, our D.C. Advocate, as part of a coalition of large cities and counties, in developing recommendations to HUD regarding the best approach to determining the formula allocation and distribution method for the funds. In addition, we have conducted significant research on behalf of the coalition to determine the best data provider to supply the most accurate and consistent data for HUD in developing the formula distribution factors. The Los Angeles County team took the lead in drafting a letter to HUD making recommendations on formula factors and data sources that would provide resources to those communities most in need. The letter further advocates for confirmation of a direct allocation to local governments rather than a pass through of funding to the states in addition to other programmatic flexibility. We are hopeful that HUD will take these recommendations into consideration while establishing the regulations for this new program.

Other Provisions Affecting the County and CDC

Mortgage Revenue Bond Reforms

H.R. 3221 provides increased mortgage revenue bond allocations to the States along with more flexible program rules and favorable tax incentives for bond purchasers. This program flexibility now allows First Trust-Deed home mortgages for the purpose of refinancing qualifying subprime loans, in addition to the previously allowed loans for first-time homebuyers. The refinancing loans can be made through December 31, 2010. The legislation also provides a tax credit for income-qualified first-time homebuyers, as well as increasing the deduction for property taxes. The new tax laws should result in even more attractive below-market interest rates for bond-financed loans.

Los Angeles County issues single-family bonds through the County's joint powers authority with Orange County, which is the Southern California Home Financing Authority (SCHFA) and works with participating private lenders who make the loans. SCHFA has applied to the State for a funding allocation for the purposes described above. We will be apprised of the results of this application on September 24, 2008.

SCHFA hopes to create a program that can work in combination with bond-financed down payment assistance and potentially with the additional CDBG funds made available by H.R. 3221 to assist with the purchase of foreclosed properties as described elsewhere in this memo. However, if a bond loan is used to purchase a foreclosed property, the lender must agree to a 12% reduction in the current appraised value of the foreclosed property.

Tax Credit Reform

The legislation also contained enhanced incentives for investors purchasing Low-Income Housing Tax Credits in multifamily developments. About 70% of the CDC's affordable housing developments utilize tax credit invested funds and such credits are available on all affordable developments funded with Multifamily Mortgage Revenue Bonds, which are applied for to the State and issued by HACoLA on an ongoing basis.

Housing Trust Fund

H.R. 3221 would establish a National Affordable Housing Trust Fund in the Treasury of the United States for the Department of Housing and Urban Development (HUD) to provide assistance to States, including grants, loans, and interest rate buy-downs that would be used to construct, rehabilitate, and preserve, and operate affordable housing; principally for extremely low-income families (i.e. 30% of Area Median Income or "AMI").

The Housing Trust Fund would receive 65% of revenues from a portion of the profits, if any, made by Fannie Mae and Freddie Mac with the remainder going to the competitive Capital Magnet Fund for economic development. In the first three years of the Fund, revenues of 100%, 50% and 25%, respectively, would be used to repay bonding commitments under the

FHA HOPE Program. The HOPE Program is a voluntary initiative whereby the Federal Housing Administration (FHA) works with participating lenders to help homeowners with troubled mortgages to refinance with FHA insurance. This legislation also updates the National Housing Act to enable the (FHA) to implement mortgage programs to more effectively reach underserved borrowers, reduce the cost of FHA mortgage insurance, and increase the FHA loan limits.

We will keep you updated as we move further into the planning process. Should you have any questions, please call me or have your staff call Terry Gonzalez, Director, CDBG Division at (323) 890-7150 or Lois Starr, Acting Director, HD&P Division at (323) 890-7230.

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c: Each Deputy